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# Economic Growth

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# ECONOMIC GROWTH

SOVIET PREMIER Nikita S. Khrushchev told delegates to the 21st Soviet Communist Party Congress at Moscow last Jan. 27 that Russia would "outstrip the United States in industrial output" by 1970 or "perhaps even sooner." Director Allen W. Dulles of the Central Intelligence Agency has called the Khrushchev boast "nothing more than wishful thinking." [1] However, Dulles in a speech on April 8 warned the American people of three "sobering implications" in Soviet economic progress:

> First of all, rapid economic growth will provide the Kremlin leaders with additional resources with which to intensify the arms race. . . . Secondly, some additional improvements can be made in the standards of living of the Russian people. . . . Finally, the Soviet seven-year plan, even if not fully achieved, will provide the wherewithal to push the expansion of trade and aid with the uncommitted and underdeveloped nations of the free world.

Secretary of Defense Neil H. McElroy, addressing the Bureau of Advertising of the American Newspaper Publishers Association on April 23, declared that "We can no more afford to lose the economic competition with communism than we can afford to fall behind militarily." The only way to meet that competition, he said, is "to increase our own output." That "may mean plowing back a larger percentage of our gross national product into capital investment for industrial expansion," and it "may mean that our people will have to learn to get along with less in current consumption." Otherwise, McElroy concluded, "we may come out second best in a competition for which there is no second prize." Sen. Lyndon B. Johnson (D-Texas), speaking in similar vein to the U.S. Chamber of Commerce five days later, called for "bold and imaginative action to increase the wealth of America." And Columbia University's American Assembly at Arden House called on May 3 for pursuit of "maximum sustained economic growth as a primary national objective."

[1] Dulles estimated, April 8, that Soviet industrial output would probably reach "about 60 per cent of that in the United States" by 1970.

Debate since Khrushchev made his prediction last winter has produced agreement among economists that the United States should take steps to maintain a reasonably high long-term rate of economic growth, not only to meet the Soviet challenge but also to satisfy domestic needs. But that is about as far as agreement goes among economists or political leaders. The question of how best to promote economic growth is complicated by the fact that it involves the short-term problem of taking up the slack still remaining from the 1957-58 recession as well as the problem of accelerating growth on a long-term basis. Controversy over measures to accomplish these objectives is heightened, moreover, by fear in some quarters that they would feed inflation.

President Eisenhower, who has been disturbed by the tendency of consumer prices until lately to move slowly but steadily upward, directed attention in his Economic Report, Jan. 20, to "the need for a framework of reasonable price stability in order to achieve sustainable economic growth." The administration has found wide backing for its policy of trying to hold prices in check through monetary restraints and budget balancing, but support has been growing for the view that the country's major economic problem now is inadequate growth rather than inflation. Leon H. Keyserling, chairman of the Council of Economic Advisers under President Truman, asserted a few months ago that "The spurious crusade against inflation remains a crusade not in the public interest but against adequate outlays for defense, international cooperation, and domestic well-being." [2]

Domestic Reasons to Foster Economic Growth

Economic expansion is necessary in the United States, first of all, to provide employment opportunities for a rapidly growing population. The labor force has been increasing at a rate of around 800,000 persons a year, and the net annual addition is expected soon to reach a million persons. If the economy stood still, many of the recruits to the labor force would go without jobs. Reasons for fostering economic growth were explained to the congressional Joint Economic Committee on March 20 by Sumner H. Slichter, Harvard economics professor, in the following terms:

> Economic growth is needed (1) because the United States, though the richest country in the world, has many millions of families

[2] Leon H. Keyserling, "Is Inflation the Problem?" *New Republic*, Feb. 9, 1959.

that must live very modestly; (2) because man is an aspiring being who is constantly raising and broadening the goals for which he strives; (3) because growth means opportunity for individuals, and absence of growth means less opportunity, and (4) because we live in a deeply disturbed and competitive world in which our security demands that we be strong.

Referring to a Federal Reserve Board survey which indicated that only one American family in five had an income as high as $7,000 in 1957, Slichter observed that "no luxurious living" was required for a family "to spend $7,000 a year, or even $10,000." Families with incomes above $7,000, moreover, spent more than six times as much on durable consumer goods in 1957 as families with incomes under $2,000,[3] so that, in Slichter's opinion, "A rise in production and incomes would mean an enormous increase in demand for durable consumer goods."

Neil H. Jacoby, a member of the President's Council of Economic Advisers from 1953 to 1955, has pointed to additional reasons for promoting economic growth. He told the Joint Economic Committee, March 23, that "Our economy needs vast amounts of capital" for education, transportation, resource development, housing, and community assets. He asserted that it would take $95 billion "merely to modernize our obsolete industrial equipment," while "Foreign investment should be increased by many billions a year if our country is to play its role as economic leader of the free world."

### Rates of Long-term Growth in United States

The Soviet Union has expanded total national production at an annual rate of about 9 per cent since World War II. The American economy grew at an annual rate of only 3.7 per cent during the 1948-57 decade, and that was considerably higher than the average rate for the past half-century. The Department of Commerce cautioned, in a lengthy study published on March 23, that "A decade's experience is generally not sufficient to indicate a long-term trend" in economic growth. It concluded that when the "extraordinary factors" that have influenced the course of economic expansion since the war are taken into account, "The postwar achievement is seen to be broadly in line with the

[3] For purposes of the survey, the population was divided into five groups ranked by money income before taxes. The first group included "spending units" with incomes under $1,890 and the fifth group spending units with incomes of $7,190 or over.—"1958 Survey of Consumer Finances," *Federal Reserve Bulletin*, July 1958, p. 761.

record of the past half-century." Total real output has quadrupled over the last 50 years.[4] This rise represents an average annual growth of about 3 per cent—"a rate which held up approximately both in the 1909-29 period and in the subsequent three-decade interval."[5]

The Commerce Department arrived at the 3 per cent figure by adding the average annual increases, over a 50-year period, of the two measurable components of economic growth. These are (1) increase in the number of man-hours worked, and (2) increase in output per man-hour worked—often referred to as productivity.[6] Productivity has increased at an average rate of 2 per cent a year, man-hours at an average rate of about 1 per cent.[7] Together, the gains in volume and efficiency of input have resulted in an average annual gain of 3 per cent in output.

### Potentialities in a Higher Annual Growth Rate

Economists have pointed out that to present productivity gains on a fifty-year basis may be misleading, for productivity has been rising at an increasingly rapid rate. Whereas the average annual gain amounted to only 1.8 per cent between 1920 and 1930, it accelerated to 2.7 per cent for the period 1930-50 and was more than 3.6 per cent in the years 1947-53.

Over-all economic growth averaged 4.6 per cent a year for the 1947-53 period. Productivity then fell off and the annual rate of growth slumped to an average of 1.3 per cent in the years 1953-58. Keyserling has argued that this sharp slowdown was accounted for by a vast under-employment of manpower and plant, not by a real reduction in productivity growth potential. He said recently that during the six-year period, "An annual growth rate of about 4.5 per cent was needed . . . to absorb our increasing capabilities to produce, in view of a growing labor force and an advancing technology." As a result of the slowdown, "We lost more than $150 billion in potential national production, and furnished about ten million man-years less of

[4] Since population has doubled in that period, output per person is now about twice what it was a half-century ago.

[5] U.S. Department of Commerce, *Income and Output* (1959), p. 2.

[6] An untold number of factors underlying increased productivity—such as capital formation, advances in education and skills, technological improvements, development of natural resources, economies of large-scale production, etc.—are summed up in this conventional statistical calculation.

[7] Actually, the labor force has grown at an average rate of 1.5 per cent a year during the 50-year period. However, shorter working hours have reduced the rise in average number of man-hours worked to only 1 per cent annually.

employment opportunity than we should have." Keyserling estimated also that, on the basis of existing tax rates, $25 billion to $30 billion was lost in federal revenue.[8]

Economists are not in accord on what rate of growth should be the goal for the years immediately ahead; 4 or 5 per cent is the annual average most often mentioned by those who have ventured to suggest a figure. Keyserling has been plugging for a 5 per cent goal, based on an annual average increase of 1 per cent in man-hours worked and of about 3.8 per cent in output per man-hour. This target is actually conservative, he asserts, because it is not much above the rate of 4.6 per cent actually achieved in the period 1947-53. On the other hand, William F. Butler, vice president of the Chase Manhattan Bank, in a speech on March 27 put the goal at only 4 per cent. He said that "Our tax system, our monetary arrangements, our attitudes towards consumption vis-a-vis saving, our acceptance of such drags on our growth as tariffs and farm and other subsidies, give us the sort of an economy that could produce a 4 per cent growth rate."

Butler explained that a 4 per cent growth rate "implies a doubling of national output every 18 years" and "would enable us to raise private living standards substantially in the period ahead, and support increased expenditures for defense, schools, roads, and other public items at the same time." Walter P. Reuther, testifying before the Joint Economic Committee on Feb. 9 in his capacity as chairman of the A.F.L.-C.I.O. Economic Policy Committee, had summed up the "impressive cumulative effect of a 5 per cent growth rate" as follows:

> It means that we can virtually double our production of goods and services every 14 years. By achieving that goal we can rapidly eliminate poverty from this country, provide a constantly rising living standard . . . for all, catch up rapidly with our unmet needs in such fields as schools, hospitals, homes, highways, and resource development, and at the same time make a contribution worthy of the world's wealthiest country to the economic development of those in economically less advanced countries.

Virtually all economists agree (1) that the 1.3 per cent average annual growth rate of the past six years cannot be taken as a guide for the future,[9] and (2) that the econ-

[8] Leon H. Keyserling, "Is Inflation the Problem?" *New Republic*, Feb. 9, 1959.

[9] Allen Dulles said, April 8, that if "our future industrial growth" does not exceed 2 per cent a year, as Khrushchev predicted, "the United States will be virtually committing economic suicide."

omy will not automatically grow to the extent that it is capable of growing.

## Methods of Speeding Economic Growth

THE QUESTION of how to speed up economic growth has been widely debated among economists and public officials. A few experts have advanced detailed programs for balanced economic growth, but the whole matter has yet to come into focus. Most economists have been advocating one or more particular measures intended to stimulate growth without promoting inflation—measures which reflect quite different beliefs and assumptions. The basic dispute has been over where to put the emphasis—on abandonment or modification of government programs that obstruct growth, on action to make business investment more attractive, on steps to stimulate consumer demand, or on increases in government spending.

### Elimination of Programs Obstructing Growth

Padraic P. Frucht, an economist for the U.S. Chamber of Commerce, said in a letter to Sen. Joseph C. O'Mahoney (D-Wyo.) on Feb. 23: "Unhappily, despite the fact that growth is so vitally needed and wanted by all of us, whether liberal or conservative, Congress appears to believe that as a people we also want even more a kind of individual economic security that directly conflicts with the economic changes required for nation-wide growth." Frucht said that "If we view growth only from the standpoint of short-run interests and particular losers, we may shortsightedly sacrifice much of the bright in their futures, and ours, in order to ameliorate only temporary present aches." "Anti-growth and anti-change" programs pointed to by Frucht included farm legislation; import restrictions; minimum price fixing in transportation, oil, and minerals; "fair-trade" legislation; interest subsidies or guarantees; and proposed subsidies for depressed areas.

Frucht asserted that Congress could do away with most of the costly farm problem in a few years "by devoting a tenth of the imagination now used in generating agricultural waste to finding appropriate ways . . . to relocate

workers in productive jobs—to provide training and education where necessary and a financial cushion." He calculated that if as few as one million unproductive farm workers could be induced to move into non-farm labor markets, "we could expect a permanent increase in national output of at least $5 billion" a year.[10]

Sumner Slichter told the Joint Economic Committee, March 20, that "The most important step that the government could take to reduce the tendency of growth to raise prices would be to cut tariffs and abolish quotas." Economists have long hammered at the point that foreign competition promotes efficiency in domestic industry and thus in the long run promotes national economic growth.

### Tax Reform to Promote Business Investment

William Butler, Chase Manhattan vice president, said on March 27 that "If we want to grow faster than we have been growing—if we wish to better the 4 per cent per annum rate of the postwar period or the 3 per cent long-term average—we must so arrange our affairs as to support a higher rate of investment." Butler observed that "A society's ability to accumulate capital—in the form of industrial plant and equipment, schools and roads, mines and oil wells—is the measure of its ability to grow." He insisted that growth of the American economy during this century had not been a result of working harder or longer but was accomplished by "providing a growing amount of machinery and equipment to supplement human effort." A 4 per cent growth rate, in his opinion, could not be bettered without tax reforms and other action to encourage "saving and investment, and initiative and enterprise."

The tax changes most frequently proposed in this connection are (1) reduction of the rates on personal income in the top brackets; (2) reduction of the present 52 per cent rate applying to the income of most corporations; and (3) liberalization of provisions governing depreciation for tax purposes. Raymond J. Saulnier, chairman of the Council of Economic Advisers, has voiced belief that "The detriment to our economic system from very high taxes on high-bracket incomes is far greater than any benefit we get from them." He has contended also that "A liberalization of our present rules [on depreciation] would be very

[10] Frucht's letter followed up testimony he had given to the Joint Economic Committee on Feb. 3. He said in the letter that "What follows is personal and does not necessarily reflect the position of the U.S. Chamber of Commerce."

helpful in creating jobs."[11] More rapid depreciation of industrial equipment would presumably promote earlier replacement of obsolete facilities. Reduction of high-bracket individual income taxes would be expected to reopen a formerly plentiful source of venture capital, while reduction of corporation income tax rates would be expected to act as a general stimulant to business investment.

### Expansion of Consumption and Public Spending

The argument that more powerful incentives to investment are necessary to accelerate economic growth is contested in some quarters. Keyserling asserted in a letter in the *New York Times* of March 17 that "The failure of consumption to expand at an adequate rate has been a major explanation of the extremely low rate of growth and the large chronic increase of unemployment of plant and manpower." Walter Reuther contended before the Joint Economic Committee on Feb. 9 that "an improved balance" was needed "between the economy's ability to produce and its ability to consume." He said that productive capacity had increased two and one-half times more than consumer buying power from 1955 through 1958—industrial capacity up by 17 per cent and the after-tax buying power of personal income by only 6.4 per cent.

A breakdown of postwar growth patterns shows that expenditures for personal consumption increased at about the same average annual rate—around 3 per cent—during both the 1947-53 and 1953-58 periods. The great difference in over-all growth rates resulted from a sharp reduction in the latter period of government spending as measured in dollars of uniform value. From 1947 through 1953, government outlays—federal, state and local combined—rose at an annual average rate of 15 per cent; at the federal level the average annual rate of increase was 20.7 per cent, mainly because of the Korean War. From 1953 through 1958, on the other hand, total government outlays for goods and services decreased at an average annual rate of 1.6 per cent; at the federal level the rate of decrease averaged 5.8 per cent.[12] The earlier growth rate could have been maintained in the 1953-58 period only if personal consumption had shown a higher rate of increase than in the

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[11] Copyrighted interview in *U.S. News & World Report*, April 20, 1959.

[12] All percentages based on changes in expenditure totals in terms of 1957 dollars. Federal outlays for national security, so measured, rose from $19.1 billion in 1947 to $60.8 billion in 1953. Such outlays amounted to 15 per cent of total national production in 1953, but to only 10.7 per cent in 1958.

preceding period or government spending had increased, instead of declined, in terms of dollars of constant purchasing power.

### Federal Policy Changes to Accelerate Growth

On the basis of the foregoing analysis, federal policies responsible for consumption deficiencies, private and governmental, would have to be changed if the long-term growth rate was to pick up. Measures most often advocated to strengthen consumer demand across the board include abandonment of the tight money policy, tax reforms to increase private purchasing power and to close loopholes, and expansion of government outlays. It is contended also that consumer demand should be strengthened selectively by improving programs designed to keep up purchasing power of such groups as farmers, the unemployed, and persons who are dependent on social security benefits.

It is thought by one school of economists that federal spending for military preparedness, foreign aid, housing, education, health, resource development, and other projects has been held down mainly by failure to understand the basic purpose of federal spending. Keyserling, testifying before the Joint Economic Committee on March 25, said:

> The real purpose of federal spending is not primarily to stimulate or repress the economy, nor to achieve a budget balance. The towering central purpose of federal spending is to allocate a sufficient proportion of what our total national output would be, under conditions of maximum employment and production and optimum economic growth, to the great priorities of our national security and domestic public needs which can be served only by federal spending, or served better by federal spending than in some other way.

John K. Galbraith asserted in his recent book, *The Affluent Society*, that too much attention has been devoted to growth *per se* and not enough to reallocation of available resources in favor of a better social balance between the public and private spheres of the economy. He believes that too much of the country's recent growth has been dissipated in the creation and apparent satisfaction of trivial demands. Decent housing, attractive cities, and well-designed schools staffed by adequately paid teachers, though requiring larger public outlays, are of more economic value in Galbraith's opinion than the production and sale of a host of items promoted by private enterprisers.

Keyserling thinks the "first and foremost" step to assure sound economic progress is to have the annual Economic Report of the President set forth "national goals to guide our efforts." One observer has suggested that "the difference in emphasis" between Keyserling and Galbraith "implies the difference between centering our attention on the quantity of goods, in the implicit faith that their quality will in time improve, and concentrating on an alteration of public attitudes toward the public and the private sphere."[13]

## Economic Growth and Price Inflation

ECONOMISTS and public officials who have clashed down the line in the debate on economic growth agree that the real problem is to combine a high rate of growth with price stability over the long haul. A fundamental division of opinion has developed, however, between those who would concentrate on checking inflation in order to stimulate growth and those who would stimulate growth in order to check inflation.

President Eisenhower sides with the large number of experts who hold to the former approach. The President in his latest Economic Report summed up his views on why "a persistent upward movement of prices" would damage efforts "to achieve sustainable economic growth."

> Quite apart from the inequities it would impose on those whose incomes would not rise correspondingly, it would narrow markets at home for important groups of goods, lower our capability to compete in the world's markets, and by requiring restrictive fiscal and monetary policies, lessen our chances for fully realizing our potential for economic growth. If price increases were to accelerate, the continuing upward movement would sooner or later undermine the confidence on which our economic system depends and would eventually release drastic corrective forces.

A concise statement of basic assumptions and policies generally accepted by persons who agree with the President was made by William Butler on March 27: "To achieve price stability we must keep the annual increase in the effective money supply in line with the growth in real production, while keeping the increase in average wages in line with the advance in the economy's efficiency." The

[13] Robert Lekachman, "Liberals and the U.S. Economy," *The New Leader*, Jan. 26, 1959, p. 5.

Chase Manhattan Bank vice president added that "The key ingredients of such an approach during a period of rising business are tight money, a surplus in the federal budget, proper debt management, and restraint on the wage-price front."

### Anti-Inflationary Action and Recommendations

The Federal Reserve Board has taken action to restrict credit and the money supply on half a dozen occasions since recovery from the 1957-58 recession started a year ago. This course has been defended by restatements of the classic view of monetary controls as an anti-inflation weapon: If restrictions are placed on the supply of money and credit, borrowing will be discouraged, saving will be encouraged, plant and capital goods expansion will be deferred, and price increases brought on by excessive demand will be checked.[14] When Chairman Saulnier of the Council of Economic Advisers was asked on April 20 if he was "satisfied with the policy being followed by the Federal Reserve to keep the supply of money from becoming too great and inflationary," he replied, "Broadly speaking, yes."[15]

President Eisenhower told Congress, Jan. 20, that "the most important step" it could take "to help preserve the stability of prices" would be to approve the balanced budget he proposed for fiscal 1960. The President shares the concern of those fiscal experts who regard federal deficits as a basic source of inflation.

The logic of that view was developed recently in a speech by Yale Brozen, professor of economics at the University of Chicago. Brozen reasoned, first, that inflation will not occur if the quantity of money does not increase. Second, he argued that the money supply will not increase unless the Federal Reserve provides the basis for currency expansion. Third, he asserted that the Federal Reserve is influenced to increase the money supply primarily by pressures to assist in financing government deficits and in refinancing maturing public debt. Brozen concluded that "The only way we are going to avoid inflation in the future is by avoiding deficits in government budgets." Future budgets could be balanced or made to show a healthy surplus, he said, only if Congress were to abandon numerous

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[14] See "Tight Credit," *E.R.R.*, 1957 Vol. I, pp. 3-22.
[15] Copyrighted interview in *U.S. News & World Report*, April 20, 1959.

existing programs and resist political pressures to undertake new spending ventures.[16]

President Eisenhower warned in his Economic Report that wage increases going beyond the bounds of productivity gains are not only inflationary but also harmful to economic growth because they tend, by raising prices, to shrink markets for goods and to bring on joblessness. The present three-year contract between the steel companies and the United Steelworkers of America expires on June 30, and large users of steel have been stocking supplies as insurance against a possible strike. This resulted in big increases in the output and profits of the companies, which in turn influenced the union to demand substantial wage increases and other benefits.[17]

A union statement, issued when the Steelworkers' wage policy committee met on April 30 to approve new demands, insisted that "A lag of wages and salaries behind the already-achieved productivity growth, if allowed to continue, would add more millions to the rolls of the unemployed within a short time." The union and the companies were in direct disagreement as to whether productivity gains were sufficient to permit wage increases without price increases. President Eisenhower arrayed the full prestige of his office against a rise in the price of steel at his news conference on March 25. Urging "statesmanship" by management and labor officials, he called for a settlement that would require "no advancement in the price of the commodity the public has to pay."

### Proposals to Curtail Spending and Curb Labor

Some persons and groups in agreement with the government's anti-inflation campaign think that drastic action may be needed to put economic growth on sound ground. The Research and Policy Committee of the Committee for Economic Development, for example, asserted on April 7 that "Any increases above the President's budget should be matched by additional taxes." The committee emphasized that it did not think a tax increase would be necessary but said it would be preferable to inflationary deficits.

Proposals to do away with federal farm subsidies have been advocated as both growth-stimulating and anti-infla-

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[16] From a speech condensed in the *Wall Street Journal* on March 30, 1959.

[17] Negotiations for a new contract opened May 5.

tionary. Prices of agricultural commodities presumably would fall if price props were withdrawn, and inflationary federal deficits would be reduced or eliminated by savings from discontinuance or restriction of crop loans and relief from storage charges. However, such recommendations, like the proposal to sharpen price competition by lifting import restrictions, would encounter powerful opposition and thus seem to stand little chance of adoption. Moreover, measures that are so extreme might do more to hamper than to promote economic growth unless accompanied by ambitious programs to ease the readjustments they would make necessary.

Many persons think that labor unions have done more than any other groups in recent years to bring on inflation and restrict growth. Charges made against organized labor in this connection have been twofold. First, it has been contended that, owing to the great power of key industrial unions, wages have climbed on the average since the war twice as fast as productivity, thus forcing prices up and keeping growth down.[18] Second, it is asserted that under the guise of protecting jobs of union members, some large unions have blocked introduction of cost-cutting equipment and to that extent choked economic growth at its roots.

Most of the proposals urged upon Congress by persons holding these views have been aimed at curbing union power in general. Foremost among them have been measures to outlaw the union shop, bring unions under the provisions of the antitrust laws, put greater restraints on unions during strikes, and curb spending by organized labor for political purposes. Bills of this kind, however, have had a rough time in recent sessions of Congress.

### Squabble Over Administered Prices and Wages

Opposition has been growing to efforts to keep prices stable by methods which are alleged to prevent reasonably full employment and reasonably full use of the country's industrial capacity. The critics have advanced three main arguments against present policy. First, they say that the problem of inflation has been exaggerated. Second, they

[18] Raymond J. Saulnier said in a letter to Sen. Estes Kefauver (D-Tenn.), chairman of the Senate Antitrust subcommittee, on April 23: "I believe we have tended of late to depart from the historical relation between wage increases and productivity improvements. To the extent that we continue to do so, we will create cost pressures that are bound to erupt in price increases. And if these cost increases cannot be passed on to the consumer in higher prices, they merely create a squeeze on profits that will, over a period of time, seriously impair the nation's capacity for economic growth."

assert that most recent price rises have not been caused by excessive demand. And they contend, third, that insufficient demand has been rendered more insufficient by application of anti-inflation policies that have done little more than throttle growth.

It has been pointed out that prices have been held in check fairly effectively in the past decade despite inflationary pressures of the Korean conflict and the expenditure of more than $400 billion for national defense. The consumer price index rose an average of less than 1.8 per cent a year from 1948 through 1958, and less than 1.5 per cent a year from 1953 through 1958.

Little of the cumulative 8.6 per cent rise from 1953 through 1958 was caused by excessive demand. Chairman Saulnier agreed in a letter to Rep. Thomas B. Curtis (R-Mo.) last Feb. 18 that investment in industrial capacity boomed between 1953 and 1957, though output did not rise as fast. Saulnier said: "I believe we would have been better off if we had avoided the price increases that occurred in part of this period, notably in the heavy industries and in those producing automobiles and other consumer durables. In my judgment, these price increases were a major factor in limiting demand and thereby restraining output."

Administration and business economists believe that union wage demands on the industrial giants had a good deal to do with pushing up prices. But union officials can cite several recent studies, not conducted under labor auspices, to counter charges that excessive wage demands were chiefly responsible for price increases that slowed economic growth. John Blair, chief economist for the Senate Antitrust and Monopoly subcommittee, reported on March 14 that between 1953 and 1957 the wholesale price per ton of steel went up 30 per cent, while the payroll cost of production workers per ton went up only 14 per cent. Ralph A. Young, research director of the Federal Reserve System, produced figures for the Antitrust subcommittee showing that the rise in salary costs in manufacturing as a whole exceeded the rise in wage costs for production workers during the 1953-57 period.[19]

Gardiner C. Means contended before the Antitrust sub-

[19] Young said, March 10, that the total payroll cost in manufacturing rose $10 billion during the period, while the rise for production workers alone amounted to only $4 billion. He noted that this development was associated with a big increase in the number of non-production workers, ranging from research to sales.

committee on March 10 that virtually the entire upward movement of prices since the end of the Korean War could be accounted for by "concentrated" heavy industries, such as steel and automobiles, which have the power to raise prices even when demand is sluggish. Woodlief Thomas, economic adviser to the Federal Reserve Board, said in a letter to the *Washington Post,* March 12, that "The objection to administered prices and wages is not so much that they create inflation but that they tend to retard growth and to increase unemployment." This, Thomas said, was because the system prevented price adjustments needed to stimulate demand when demand fell off. As a consequence, buying remained inadequate, output dropped, unemployment rose.

### Effects of Tight Money on Growth of Economy

Administered pricing, according to Thomas, "cannot be effectively controlled or corrected by . . . fiscal and monetary policies." Advocates of emphasis on economic growth, instead of inflation, pounced on this observation. They pointed out that, despite wide agreement that demand in the main was not excessive during the most recent period of rising prices, the Federal Reserve Board and the administration acted as though the inflation was of the classic variety; they moved to curb spending in the private and public spheres of the economy when spending was exactly what was in order.

Sen. Albert Gore (D-Tenn.) told the Senate, March 18, that tight money had failed to stop inflation and had brought about "drastic increases in interest rates which have imposed great burdens upon the government and upon the people." Gore noted that, as a result of high interest charges, "The cost of carrying the national debt has skyrocketed" and "the cost of everything that we as individuals buy, particularly on instalment contract, has been increased." Necessary state and local spending projects have been "deferred or indefinitely postponed because of inability to market bonds at interest rates within legislative authorizations."

The only major institution in the economy not seriously damaged by recent economic policy, persons holding this view say, is the large corporation in a concentrated industry. This is because it can administer its prices to achieve an extremely low "break-even" point. As a result, in good

years or bad, it can finance most of its needed expansion through use of retained profits and so is not seriously affected by the high cost of borrowing brought about by a tight money policy.

Recent national economic policy has been held responsible in some quarters for throttling economic growth where it was needed most. Private consumption, it is said, has been held down by failure of existing tax, credit, and spending programs to induce adequate consumer demand. Public investment for essential local, domestic, and defense needs has been held down by lack of sufficient revenue due to failure to stimulate consumer demand. As for fears of deficit financing, it is asserted that a balanced budget would follow as a matter of course, because tax revenue would be substantially swelled by collections from the new income which spending on housing, schools, roads, dams, and other public or private projects of various kinds would generate.

Various proposals have been made for curbing the current brand of inflation. Sen. Joseph S. Clark (D-Pa.) and Rep. Henry S. Reuss (D-Wis.) have introduced bills which would authorize the President, or a federal agency designated by him, to hold public hearings on actual or prospective price or wage increases which "threaten national economic stability." A bill by Sen. O'Mahoney provides for filing with the Federal Trade Commission of price increases proposed by large corporations in concentrated industries, and for suspension of the increases for a 30-day waiting period during which the F.T.C. would hold public hearings.[20] An additional proposal, advanced by some economists, is to restrict Federal Reserve powers over the supply of currency and credit.

In the main, however, persons who believe that economic growth should be accelerated by encouraging consumer buying and public investment have concentrated on winning acceptance of their basic position. They have been trying to counter traditional economic thinking by arguing that there is no merit in a national economic policy that restrains economic growth or maximum production and employment in order to curb demand inflation, particularly in light of the fact that demand inflation has hardly been a problem in recent years.

[20] Objections to the Clark-Reuss and O'Mahoney proposals have been voiced by the administration, the U.S. Chamber of Commerce, and the A.F.L.-C.I.O.

### Creeping Inflation and Expansion of the Economy

Chairman Saulnier of the Council of Economic Advisers has said: "There are all kinds of formulas for growth in a free economy. There is a boom-bust formula, and there is a formula for orderly growth. I think stable prices are an essential part of the latter." [21] Keyserling has hammered hard at the point that rapid expansion and rising prices need not go hand in hand. He has noted that prices dropped 0.3 per cent while output jumped 8 per cent in 1954-55, and that prices rose 2.7 per cent while output dropped 3 per cent in 1957-58.

Keyserling told the Joint Economic Committee, March 25, that he did not share the view that "a 2 or 3 per cent annual price inflation is the burden which we would need to accept in order to achieve optimum economic growth and to maintain maximum production and employment." He added, however, that "If this amount of price inflation were the only way to achieve these other objectives, I think it would be worth the cost under existing world conditions, and [providing that] we . . . adopt other programs to deal equitably with those hurt by price inflation."

Marriner S. Eccles, a former chairman of the Federal Reserve Board, declared before the same group on the same day that "Nothing is more urgent, unless it be an adequate defense, than to arrest the growing belief in the inevitability of inflation and to organize our economic affairs so that faith in the integrity of the dollar be re-established."

[21] Copyrighted interview in *U.S. News & World Report*, April 20, 1959.